

IMPACT OF PROPOSITION 13 ON CITY OF LAKEWOOD



A PRESENTATION TO THE CITY COUNCIL

BY

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CITY ADMINISTRATOR

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IMPACT OF PROPOSITION 13

ON

CITY OF LAKEWOOD

Introduction

At the Council meeting of May 9, County agency representatives reported on contingency plans affecting services to Lakewood residents in the event of the passage of Proposition 13 and if no replacement revenues are provided.

Tonight's presentation will complete our analysis of the impact of this ballot measure on service levels.

Any discussion of this topic must be based on a number of assumptions. Interpretation of the initiative's various provisions may be required by the courts. In projecting direct revenue impact, the Director of Finance relied on many assumptions recommended by the League of California Cities.

Our analysis represents our best professional opinion. Yet, it is only an opinion. There are few definitive answers to the critical questions concerning the impact of this measure.

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The Issues

We consider the following as the major issues that require examination:

1. What is the direct impact on property tax revenues of the City?
2. What is the impact on other revenues received by the City from other local governmental entities?
3. Are any City revenues that are received under authority of the State threatened?
4. How are schools and special purpose districts serving Lakewood affected?
5. What is the projected impact of Proposition 13 on the Lakewood Redevelopment Agency?
6. Do the revenue reductions affect the viability of the contract city concept?
7. Who benefits if Proposition 13 passes?
8. What is the impact of Proposition 8 if it passes and Proposition 13 fails?

Direct Impact on City Property Tax

In the current fiscal year, the City levied a property tax of 22¢ per \$100 of assessed valuation. The Director of Finance estimates that \$587,582 will be collected this fiscal period as a consequence of the tax. It represents 8.9% of the City's general fund revenues.

Direct Impact on City Property Tax (cont.)

With the restrictions imposed by Proposition 13, the Director estimates that this sum will be reduced 71.5% to \$167,626, a loss of \$419,956. The percentage of the contribution of the property tax to the City's general fund revenues would be reduced to 2.5%.

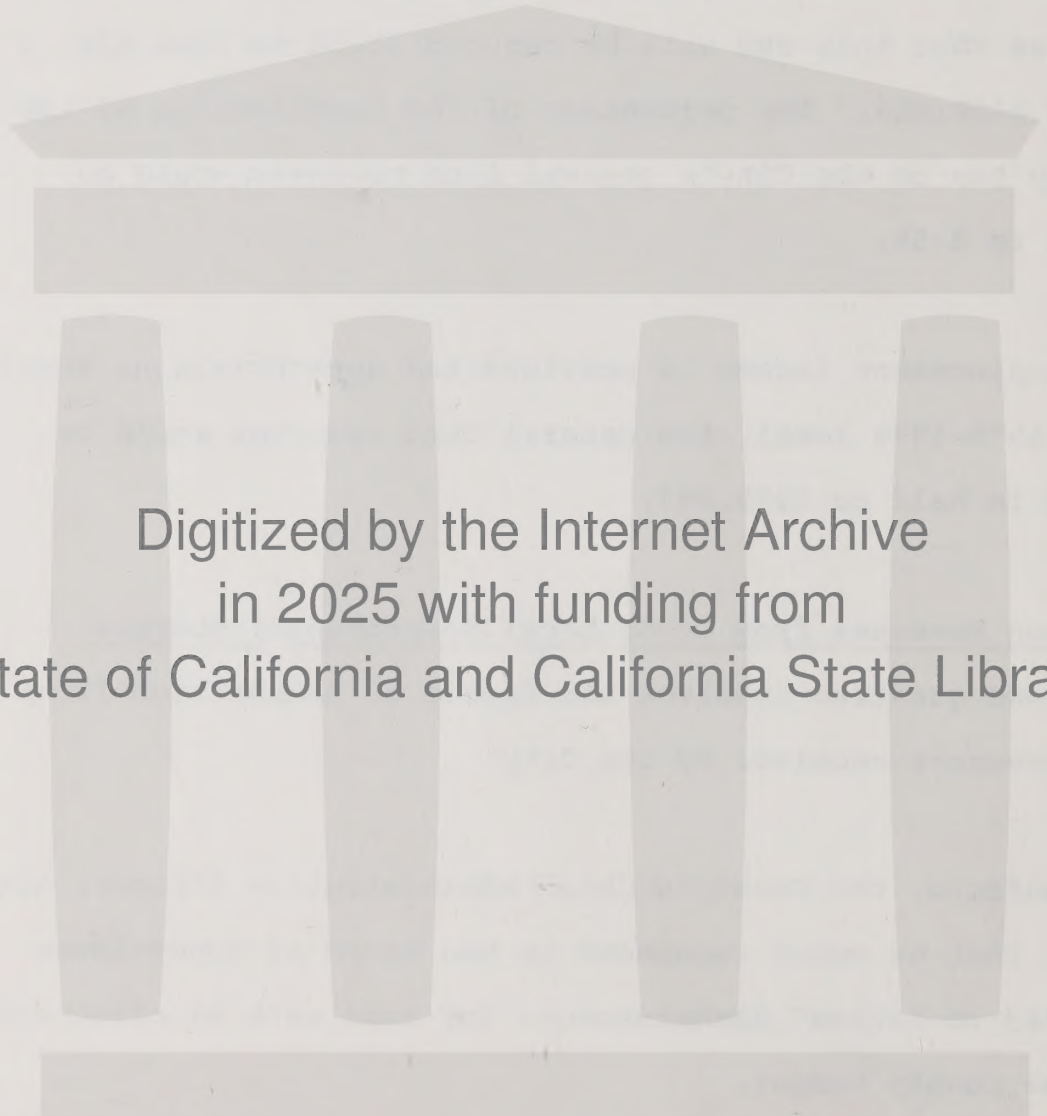
If no replacement income is provided and appropriations remain at the 1977-1978 level, the general fund reserves would be reduced in half to \$495,647.

Impact on Revenues from Other Local Governmental Sources

The second question involves the impact of Proposition 13 on other revenues received by the City.

Harry Hufford, the County's Chief Administrative Officer, has told us that he would recommend to the Board of Supervisors that "Aid to Cities" disbursements for road work be eliminated from the County budget.

During the current year, Lakewood received \$111,384 in such funds. This represents roughly 10% of all funds expended by the City for road work. It represents 30% of funds, exclusive of gas tax receipts, expended for road work. Because of the stabilization of gas tax revenues and the escalation of street



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maintenance and construction costs, a significant expenditure of general fund monies has been spent on streets. As a result of the loss of ATC monies, general fund expenditures will either go up or service greatly reduced.

Summary of Revenue Loss

In summary, the impact on reduced property tax receipts and eliminated County road revenues is a loss of \$531,340 to the City.

Effect on Revenues Collected Under Authority of State

The third question we wish to examine is the impact, if any, on revenues received by the City from the State.

The City receives one-sixth of the six cent sales tax collected within its boundaries. In the current fiscal period, this sum is estimated by the Director of Finance as \$2.66 million. It represents 40% of the general fund revenues.

Nothing in Proposition 13 directly affects the future ability of the City to benefit from this revenue. However, there is good reason to believe that the passage of Proposition 13 might motivate the Legislature to reexamine how sales tax revenues are distributed to local governments.

Effect on Revenues Collected Under Authority of State (cont.)

Retired Legislative Analyst A. Alan Post has warned that the Legislature may attempt to utilize distribution of the sales tax to "equalize" the impact of Proposition 13. When essential services are not provided in one community, but are in another community with a favorable revenue position, Mr. Post warns the Legislature will be tempted to offset the impact through redistribution.

Lakewood receives a higher share of its municipal revenues from the sales tax than most California cities. We benefit from sales transacted at the Lakewood Center and the many other retail sites in our community. The significant sales increases predicted as a result of the remodeling and enclosure of Lakewood Center may never accrue to the benefit of Lakewood citizens in the form of sales tax payments.

Distributing sales tax on a per capita basis instead of point of origin could be a disaster to our community. In the event of the passage of Proposition 13, the City must be prepared to strongly defend the current sales tax distribution formula.

Impact on Schools and Special Purpose Districts Serving Lakewood Residents

The fourth question relates to reduced revenues for school districts and other special purpose districts, such as fire and library,

Impact on Schools and Special Purpose Districts Serving Lakewood Residents (cont.)

that serve our community.

If no replacement income is provided, the four school systems serving parts of Lakewood would lose upwards of 30% of their income. It is inconceivable that such a significant reduction would not seriously affect the quality of education provided Lakewood students.

According to Proposition 13 analyses prepared by the affected school districts, the reduction of income would require:

- Substantial increases in class sizes at all grade levels.
- Virtual elimination of pupil support services, such as school nurses, instructional media and curriculum development.
- Severe curtailment or elimination of extracurricular activities, such as athletics.
- Elimination of teacher aides in programs not funded by special grants.
- The ABC Unified School District will eliminate special compensation paid teachers for support of athletics, clubs, band, and other programs. The District also intends to eliminate meal programs funded by the District directly.

Impact on Schools and Special Purpose Districts Serving Lakewood Residents (cont.)

- The Bellflower Unified School District will reduce the instructional program at Mayfair High by one teaching period per day. The library program will be eliminated. All special activities that are not required by law will be curtailed or eliminated.
- The Paramount School District anticipates a loss of 125 teachers in the event of the passage of the ballot measure.

As pointed out by the County representatives at the May 9 Council session, the revenue of the Consolidated Fire Protection District would be reduced 71%. These special districts derive practically 100% of their income from the property tax.

The Fire District's contingency budget calls for the closure of three of the four fire stations serving the City. The remaining station would be cut to a single engine company of three men. Three men covering the entire City of Lakewood seems intolerable on the surface. The District's budget also eliminates paramedic service, which is a program we believe is both desired by the residents of Lakewood and very successful in its life protection mission.

Impact on Schools and Special Purpose Districts Serving Lakewood Residents (cont.)

The Library District's contingency budget would result in the closure of the George Nye, Jr., Library at Mae Boyar Park and the Bloomfield Branch in the eastern portion of our community. Our negotiations with the County to transfer the Bloomfield's staff and collection of materials to the proposed Palms Park Library would be impossible to satisfactorily conclude if the Proposition passes and no replacement income is forthcoming to the District. The remaining library in Lakewood, the Iacoboni Library, would be restricted to a week-day-only basis during daytime hours.

To roughly gauge the magnitude of revenue loss if Proposition 13 passes, and no replacement income is provided, the Director of Finance calculated the property tax raised for these Districts within the boundaries of Lakewood.

The Fire Protection District currently generates \$1.8 million from the property tax levied in Lakewood. Under the ballot measure, this figure would be reduced to \$516,000, a reduction of \$1.2 million.

The Library District raises \$564,188 currently from Lakewood taxpayers. Under the ballot measure, this total would be reduced

Impact on Schools and Special Purpose Districts Serving Lakewood Residents (cont.)

to \$163,614, a revenue reduction of \$400,573. It is important to understand that as single purpose special districts, practically no alternative is available other than the significant reductions listed. One alternative is for cities which are part of the districts to supplement revenues from City services. However, the lost revenue utilizing current service levels represents twice the City of Lakewood's general fund reserves.

Impact on Lakewood Redevelopment Agency

The fifth question concerns the impact of the ballot measure on the Lakewood Redevelopment Agency. The Director of Finance has not calculated this impact. However, if the statewide average is used, the figure would be a 57% revenue reduction.

This reduced revenue, coupled with the Proposition's restriction on the growth of assessment increases on continually owned property to two percent annually, would preclude the possibility of the issuance of bonds to underwrite such critical public projects as water main replacement, street repair, and other possibilities.

The reversion of the assessment roll to the 1975-1976 fiscal year further reduces the revenue produced through tax increment growth.

Effect on the Contract City Concept

Lakewood innovated the contract city concept in California. The sixth issue we examine this evening regards the future viability of this concept.

On one hand, it seems reasonable to project that the County will continue to extend contract services, in such vital areas as law enforcement and criminal justice, as long as local governments have an ability to finance the contracts.

Yet, it seems equally likely that the cost of such services will increase. Also, it already is evident that budget reduction methods used by the county, such as a hiring freeze, already make certain services requiring specialized personnel unavailable to us simply because of the absence of qualified persons to fulfill the contracts.

The responsiveness of the County to the needs of contract cities would likely be lessened. Cities would have no alternative than continuation of present contracts since the cost to institute local programs providing these services would be prohibitively expensive under the limitations imposed by the Proposition. It would be a seller's market, with one seller--the practically bankrupt County of Los Angeles--in event of the Proposition's passage and no replacement income.

G.C. (Dee) DeBaun
Mayor Pro Tem

Dan L. Branstine
Council Member

Jacqueline Rynerson
Council Member

Paul E. Zeltner
Council Member



Larry Van Nostran
Mayor

June 23, 1978

Mr. Jack Leister, Head Librarian
Institute of Governmental Studies
109 Moses Hall
University of California
Berkeley, CA 94720

Dear Mr. Leister:

In answer to the request from Eugene C. Lee for information to be used in studies related to the implementation of Proposition 13 by the Institute of Governmental Studies, enclosed is a copy of "Impact of Proposition 13 on the City of Lakewood." The report was prepared for presentation to the City Council on May 23, 1978.

If you have any questions, please call.

Sincerely,

Agnes Morinishi
Secretary

Enc.

Lakewood.

Effect on the Contract City Concept (cont.)

Many contract cities, such as Lakewood, which in the past provided a full range of municipal services with limited numbers of employees and resulting low overhead costs could be pressured into adding additional staffing or eliminating the service.

There are also issues of equity which are sure to be raised. If service cuts in so-called independent cities exceed those in contract cities, renewed pressure will be focused on the Legislature to enact the Roberti bill regarding the computation of contract costs.

Summary of Issues 1-6

Let's summarize at this point.

Lakewood will lose more than a half a million dollars if Proposition 13 is passed and no replacement income is provided. The distribution formula for sales tax, which favors Lakewood currently, could come under attack; and, if changed to a per-capita basis, would jeopardize the financial soundness of the City. Local school systems would be cut back to the bone to the point that the education of our youth would surely suffer. Fire protection would be reduced, probably below safe levels. The public library concept, as we have known it, would be a certain casualty. The promise of beneficial community

Summary of Issues 1-6 (cont.)

development activities, financed by redevelopment tax increment revenues, would be lost. Finally, the contract city concept would be in fatal danger.

With such serious consequences, the question must be raised at this point regarding what benefits are provided if Proposition 13 is successful.

Who Benefits If Proposition 13 Succeeds?

Balanced against these consequences is the significant reduction of property taxes for all property owners. And, future increases would be limited to 2% annually as long as parcels do not change ownership. Homeownership would be salvaged for hundreds of thousands of Californians presently on fixed incomes who no longer can afford the high cost of property taxes.

The message is clear from Californians: property taxes are too high and must be reduced now!

There is a paradox in all of this, however. While the message is unmistakable in respect to property taxes, there is no evidence to suggest that the majority of taxpayers support a general reduction in the level or quality of services provided by the local governments. It, however, would seem impossible not to

Who Benefits If Proposition 13 Succeeds? (cont.)

affect service levels with such a major reduction of revenues to local governments--\$7 to \$8 billion.

Who really benefits if this measure passes? If replacement income is provided by the Legislature, it would probably come from some combination of increased sales taxes, income taxes, or bank and corporation taxes. If service levels are maintained, analyses undertaken by the media as well as by governmental entities suggest that these taxes will be paid by the same persons who receive a tax break in terms of property taxes. In many cases, the combination of higher taxes and new service charges would result in less service per dollar.

If homeowners don't benefit on the balance, who does? The biggest beneficiary if Proposition 13 passes would seem to be the owners of rental properties and business and industrial land holders. Two-thirds of the tax relief under Proposition 13 is provided to such property owners. Only one-third of the tax relief is provided to homeowners.

If these state averages are roughly accurate for Lakewood, this would mean that \$800,000 of the \$1.2 million reduction in fire department revenue in Lakewood would accrue to owners of rental, commercial, and industrial property. And, the same

Who Benefits If Proposition 13 Succeeds? (cont.)

holds true in each reduction made under terms of the Proposition. Two dollars out of every three benefit these groups, and not homeowners!

Proposition 8 Impact

Our final issue is the effect on local governmental revenues if Proposition 8, incorporating the Behr Act, succeeds and Proposition 13 fails. The Behr Act (SB 1) places a lid on government spending, something the Jarvis Initiative does not. Revenue growth would be limited to the percentage increase in cost index plus additional revenue derived from new construction.

Similar to Proposition 13, the ballot measure provides property tax relief. However, it restricts this relief to homeowners for the most part. (A slight dollar increase is provided by Proposition 8 to renters in the form of a higher state income tax credit.) Instead of reducing revenues available to local jurisdictions, Proposition 8 would be financed by the existing and projected state surplus. No additional tax increase would be necessary.

Service levels would not be affected. No fire station or libraries would be required to be closed. The contract city concept would not be in jeopardy.

Proposition 8 Impact (cont.)

However, the homeowner property tax relief under Proposition 8 is only half of what is provided under Proposition 13. Instead of an average relief of 57%, Proposition 8 provides a guaranteed relief of 30%.

One Final Issue: Chaos

There is one issue we didn't initially list. It involves the uncertainty that would surely result if Proposition 13 passes. It could be years until the courts clarify the various provisions of the initiative, which would be the subject of litigation.

Equally important would be the outcome of legislative deliberations on the matter of replacement income to jurisdictions. In the resulting chaos, if Proposition 13 passes, some levels of governments would benefit more than others. Since the property tax affects local governments in divergent ways, some cities would benefit more than others. How Lakewood would fare is far from clear.

If replacement revenues are provided by the State or federal government, there would doubtlessly be a loss of local control in certain respects. Higher levels of government would be enhanced at the expense of local government. This may or may not be desirable. It depends on each person's philosophy.

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